

50+ FUTURES Planning

An Educational Series for
HOWARD COUNTY EMPLOYEES

A partnership between Office on Aging and Independence
and Coalition of Geriatric Services (COGS)





Successful Estate Planning: Integrating Financial and Legal Planning

- ▶ Cynthia M. Lifson, Esquire;
- ▶ Michael Mooney, CRPC Financial Advisor
- ▶ Mary Hughes, Daily Money Manager



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TOP TEN TIPS IN ESTATE PLANNING FROM CYNTHIA M. LIFSON

1. Estate planning is for everyone. We all need to consider our goals, family dynamics, and how we wish to distribute our property after we pass on. Without appropriate estate planning documents, the government will distribute property according to local state law and not in accordance with your wishes.
2. Estate planning not only addresses passing property after death but includes management of property and health care decisions while we are alive if we need assistance.
3. Gather information about your assets and liabilities. Understand how assets and liabilities are titled – in your name alone or in your name with another person.
4. Understand the responsibilities of a fiduciary such as an agent, a trustee, or a personal representative. Nominate a fiduciary who is demonstrably honest and capable of handling the job, including managing and accessing on-line passwords for social media and other digital assets.
5. Be sure to nominate a successor fiduciary in case your first choice of a fiduciary is not available or willing to assume this responsibility.
6. Investigate various estate planning tools to determine which approach is best for you and your family. Some potential options include wills, living trusts, testamentary trusts, gifting, beneficiary forms, or some combination of these estate planning tools.
7. Consider collaborating with an attorney along with other professionals such as accountants, stock brokers, or other financial advisers. Note the impact of income tax planning on estate planning.
8. Protect your minor children by including a testamentary trust in your will.
9. Review your estate planning documents at least annually because life's circumstances and laws change.
10. Remember the impact of your legacy on those who follow you. While legal documents are basic, consider preparing a letter to important people in your life to express your values and how you would like to be remembered.

TEN FINANCIAL PLANNING TIPS FROM MICHAEL MOONEY

1. **Have a financial plan** that is tailored to your needs and review make changes often and as needed. Always important to have a plan in place.
2. **Get assistance from a planner if needed.** An honest assessment from a third party and financial planner can provide important objective advice.
3. **Review your insurance and protect your loved ones.** Confirm that you have reviewed your life and disability insurance so that all liabilities and planning needs will be met.
4. **Establish your risk tolerance for investing and review allocation of your assets.** Know how much risk you should be taking and how to allocate among stocks, bonds real estate and cash
5. **Retirement income planning and know how you want to take income from retirement.** How to take assets in retirement from qualified and after tax accounts.
6. **Have a plan in place for long term care planning.** Understand long term care insurance options and what is needed for long term care.
7. **Have and update your will and estate planning .** Review your estate planning needs and consider working with an attorney and accountant regarding your tax and estate planning.
8. **Contribute to to your retirement plan and take advantage of company employee benefits.** Always contribute to receive your match from your employer.
9. **Establish an estimate of your needs in retirement for income and essential needs.** Calculate or have an advisor help calculate income needed at retirement.
10. **Update your beneficiary designations and keep good records of all important documents.** For tax purposes and your loved ones, keep a checklist and know where all documents are located.

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Cynthia Lifson: Basic Legal Documents

- ▶ Getting Your Ducks in a Row



Objectives

- ▶ To understand the basic legal and financial considerations for successful estate planning
- ▶ To provide participants with roadmap of important considerations for successful financial and investment planning.
- ▶ To understand appropriate legal tools to execute your plan.

Getting Organized: Know What You Have and What You Want Others to Have

▶ Getting Organized:

- ▶ Know your Assets and Liabilities
- ▶ Income and Expenses
- ▶ Existing Documents
- ▶ Current Beneficiary Designations

▶ Determine Your Goals:

- ▶ Maintaining Your Financial Stability at Retirement
- ▶ Family Dynamics
- ▶ Disability and Special Needs
- ▶ Charitable Interests

Decision Making when Assistance is Needed

Advanced
Health Care
Directives

Personal
Financial Power
of Attorney

Engaging in
Difficult
Conversations

How Long Should You Keep Certain Papers?

Document Retention Cheatsheet

One Year

- Bills, such as utility, cable, phone, and credit card statements
- Pay stubs (keep until can confirm match to your W-2)
- Bank documents such as ATM receipts, deposit slips, and canceled checks (see below for bank statements)
- Receipts (for many 90 days or less is sufficient). Exceptions - receipts for bigger ticket items should be stored with warranties or home inventory, and save those receipts needed for tax documentation

Three Years

- Medical bills and accompanying insurance paperwork
- Bank statements (some experts say just one year, so you choose)

Seven Years

- Personal tax returns and supporting documentation
- Investment or brokerage statements (keep for 7 years after you sell investments)

Indefinitely

- Loan documents, for the life of the loan, plus payoff statements forever
- Retirement statements (until all money has been distributed)
- Vehicle titles, and maintenance records (until no longer own vehicle)
- Warranties (until no longer own item, or warranty expires)
- Personal identification and vital records, such as birth and death certificates, marriage license, divorce records, wills, passports



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Basic Tools in the Estate Planning Tool Box

Wills

Trusts - Living/Testamentary;
Revocable/Irrevocable

Beneficiary Designations

Regular Review of Your Plan

The Legacy You Leave

- ▶ Organized or Messy?
- ▶ Remembrance of Relationships

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the slide, creating a modern, layered effect.

Michael Mooney

Basic Financial Planning Issues

Universal Considerations - Organizing Your Financial Information

- ▶ Know all Assets and Liabilities and how they are titled
- ▶ Review and understand all insurance coverage
- ▶ Understand where assets are allocated - how much percentage that is invested in stocks, bonds, real estate and cash
- ▶ Social Security Benefits
- ▶ Review Beneficiary Designations



Determining Financial Goals: Developing Your Plan

- ▶ How much is needed to meet goals - college planning, retirement, etc.
- ▶ Strategy for long term care planning, disability coverage and health insurance
- ▶ Income planning in retirement - set up a budget
- ▶ Risk strategy for investments and asset allocation
- ▶ Define your priorities in your financial life

Important Considerations for Financial Planning

- ▶ Understanding options and types of investments (stocks, bonds, exchange traded funds, real estate investments)
- ▶ Managing insurance planning and reviewing needs for life, disability and long-term care
- ▶ Identifying appropriate products and investments to help clients achieve their goals
- ▶ Determining retirement strategies to help them in the accumulation and retirement distribution phases of their planning
- ▶ Considerations for tax planning in retirement



Planning for Income to Last

Retirement Income Planning

Not FDIC Insured • May Lose Value • No Bank Guarantee

FIDELITY INSTITUTIONAL ASSET MANAGEMENT®



This guide explains why you should consider developing a retirement income plan.

It also discusses what you may need to know when working with your advisor to build one—including the key risks facing today's retirees.

Understand the five key financial risks facing retirees

Determine how to maximize your income sources

Develop a retirement income plan



You may be retired for even longer than you worked

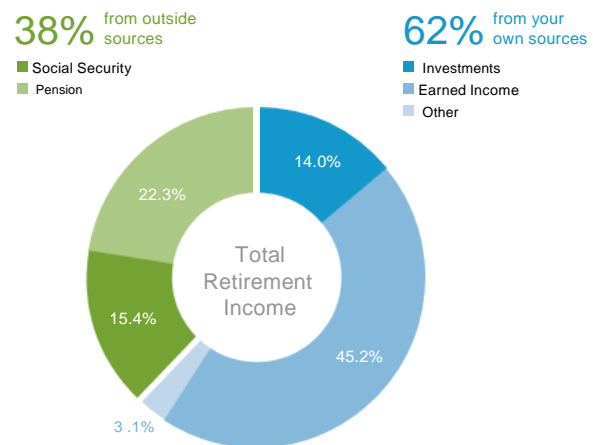
Whether you're approaching retirement or already retired, you face the increasingly complex challenge of planning for income to last throughout your lifetime.

That's why it's important that you consider building a retirement income plan. All it takes is a little time, a lot of awareness, and some step-by-step assistance with your investment professional.

Today's retirees approach retirement much differently than those of previous generations:

- Many people have higher expectations about their retirement years.
- With our increasing life span, spending 30 years or more in retirement is a realistic possibility.

INDIVIDUALS WILL BE RESPONSIBLE FOR THE MAJORITY OF THEIR INCOME IN RETIREMENT



Five key risks you'll need to address

Before you can begin building a practical road map to financial security, you'll need to understand—and integrate into your plan—five key risks that could potentially limit your success in reaching your retirement income goals:

- Longevity
- Health care expenses
- Asset allocation
- Inflation
- Excess withdrawal

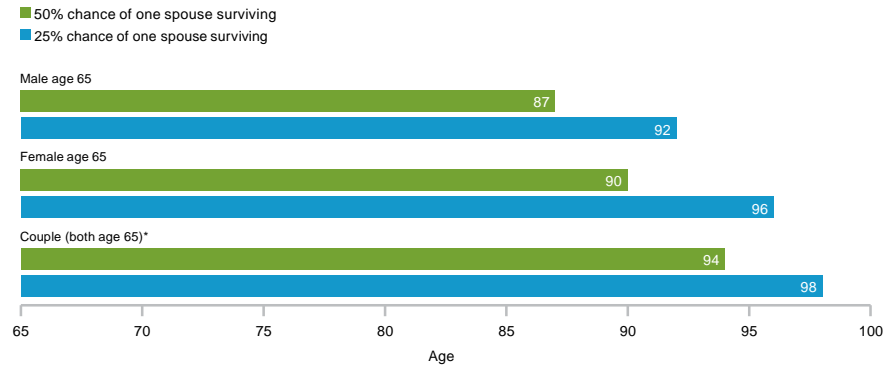
¹ Social Security Administration, Income of the Aged Chartbook, 2014 (released April 2016), based on highest quintile of \$72,129. For illustrative purposes only.

Longevity

A retirement income plan may help to ensure that your assets last as long as your retirement. When thinking about how long you might need income, many people tend to think in terms of life expectancy. But by definition, half of the population will live longer than they expect, which means that they will underestimate how long they will need their savings to last.

A more realistic approach is to plan for longevity—a long continuance of life—as illustrated in the graph below. As a result, you will want to consider planning to need income well into your 90s so you reduce the risk of running out of money late in life.

RETIREES SHOULD PLAN FOR LIVING LONGER THAN THEY EXPECT



* At least one surviving individual. Source: Society of Actuaries RP-2014 Morality Table projected with Mortality Improvement Scale MP-2014, as of 2015. For illustrative purposes.

CHALLENGE:
Many people underestimate their life span and therefore risk outliving their assets.

WHAT YOU CAN DO:
When building your retirement income plan, realistically plan for the possibility that you'll live longer than you think.



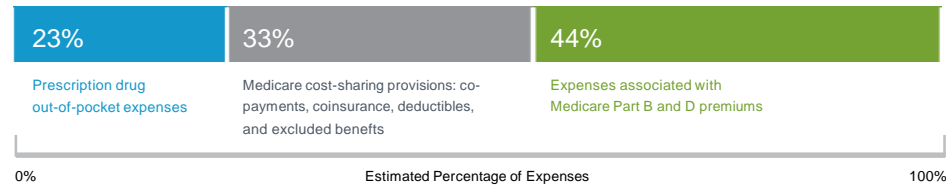
Health Care Expenses

Longer life spans, rising medical costs, declining employer-sponsored medical coverage, and possible shortfalls ahead for Medicare all add up to make meeting health care expenses a critical challenge for retirees and pre-retirees alike. In fact, Fidelity estimates that retirees may need to fund a considerable portion of their own health care expenses not covered by Medicare, such as co-pays, deductibles, and over-the-counter drugs, especially if they do not have employer coverage.

And these estimates don't include possible long-term care, which averages over \$92,400 per year in the U.S. for a private nursing home room.* It is possible that half of those aged 65 today will be admitted to a nursing home at some point in their lives, reinforcing how important it is to ensure that you can cover these expenses.

FIDELITY ESTIMATES THAT A 65-YEAR-OLD RETIRING COUPLE WILL NEED APPROXIMATELY \$280,000 TO COVER MEDICAL COSTS IN RETIREMENT

It does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care.



* Department of Health and Human Services, LongTermCare.gov, accessed October 10, 2017.

† Estimate based on a hypothetical couple retiring in 2017, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Estimates may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care.



CHALLENGE:

Rising health care costs, coupled with inadequate health care coverage, can have a devastating impact on your lifetime income plan.

WHAT YOU CAN DO:

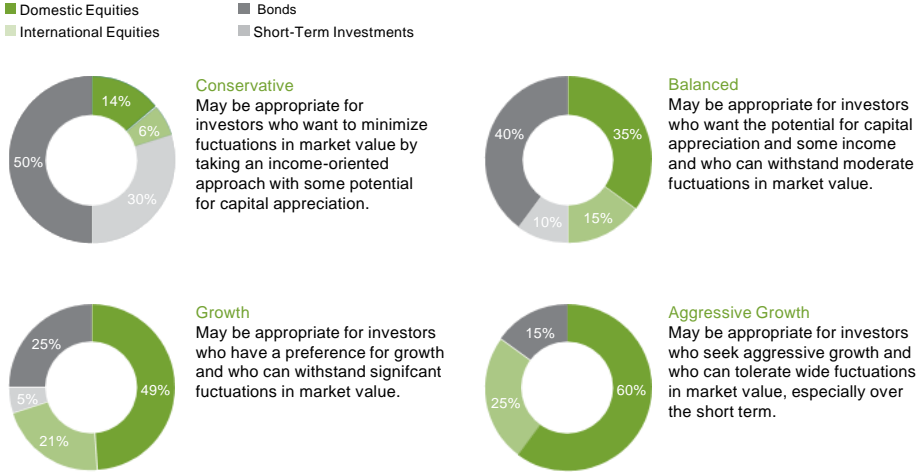
Maximize savings specifically intended to meet health care expenses and ask your advisor whether a long-term care policy makes sense for you. Long-term insurance is costly at any age, but it is significantly less expensive when purchased earlier in life.

Asset Allocation

People who fear losing their nest egg may choose conservative investments in the hope that this strategy will help mitigate risk. But by doing so, they are giving up long-term growth potential and may outlive their savings. Market risk comes with investing. While we can't control market behavior, we may be able to manage its long-term effects through our investment choices. One option is asset allocation, which may help to strike a balance between conservative and aggressive investments.

A significant imbalance in either direction may expose you to risk. Too aggressive a portfolio can increase your vulnerability to market volatility, while a portfolio that's too conservative may not outpace inflation, thereby increasing the risk that you will outlive your assets.

EXAMPLES OF TARGET ASSET MIXES DESIGNED TO MEET GOALS

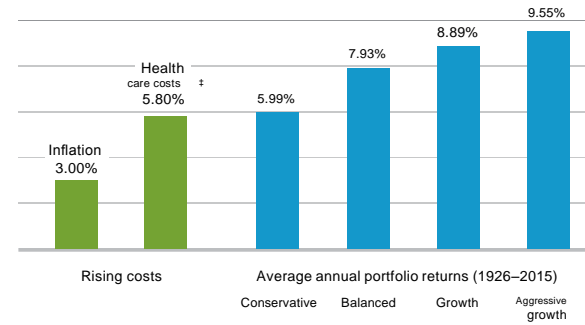


Generally, among asset classes, stocks may present more short-term risk and volatility than bonds or short-term instruments, but may provide greater potential return over the long term. Although bonds generally present less short-term risk and volatility than stocks, bonds contain interest rate risk (as interest rates rise, bond prices usually fall), the risk of issuer default, and inflation risk. U.S. Treasury bills maintain a stable value (if held to maturity), but returns are generally only slightly above the inflation rate. Foreign investments, especially those in emerging markets, involve greater risk but may offer greater potential return than U.S. investments. The above target asset mixes are hypothetical models and illustrate certain examples of many possible combinations of investment allocations that could help an investor pursue his or her goals; these target asset mixes do not constitute investment advice, as defined under the Employee Retirement Income Security Act of 1974 (ERISA), as amended. You should choose your own investments based on your particular objectives and situation. Remember that you may change how your account is invested. Be sure to consult with your advisor to review your decisions periodically and to make sure they are still consistent with your goals.

These target asset mixes were developed by Strategic Advisers, LLC, a registered investment advisor, and Fidelity Investments company.

RETIREES NEED STOCKS FOR THE LONG HAUL

Comparison of average annual rising costs vs. average annual investment returns



The graph shows how historical annual returns on various asset allocations have fared compared with inflation and health care costs.

Keep in mind that equity investments generally involve greater risk than other investments, including the possibility of losing principal.

Asset allocation does not ensure a profit or guarantee against a loss.

The graph above represents the average annual return percentage for the investment categories shown from 1926 to 2015 from Ibbotson Associates. Past performance is no guarantee of future results. Returns include the reinvestment of dividends and other earnings. This graph is for illustrative purposes only and does not represent actual or implied performance of any investment option. All indices are unmanaged and it is not possible to invest directly in an index.

Domestic stocks are represented by the Standard & Poor's 500 Index (S&P 500) †. The S&P 500 is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group presentation to represent U.S. equity performance. Foreign stocks (international equities) are represented by the MSCI® EAFE® (Europe, Australasia, Far East) Index for the period from 1970 to the last calendar year. Foreign stocks prior to 1970 are represented by the S&P 500. Bonds are represented by the U.S. Intermediate Government Bond Index, which is an unmanaged index that includes the reinvestment of interest income. Short-term investments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government. Inflation is represented by the Consumer Price Index, which monitors the cost of living in the United States.

U.S. stock prices are more volatile than those of other securities. Government bonds and corporate bonds have more moderate short-term price fluctuation than stocks but provide lower potential long-term returns. U.S. Treasury bills maintain a stable value (if held to maturity), but returns are generally only slightly above the inflation rate.

Please see "Important Information" and "Index Definitions" on back cover.

† Data for health care costs is from the Centers for Medicare and Medicaid Services, National Health Expenditures Estimates 2018–2025.

CHALLENGE:

Retirees with a portfolio overly concentrated in conservative investments may expose themselves to a greater risk of outliving their assets.

WHAT YOU CAN DO:

The key to long-lasting retirement income may depend on a balanced asset allocation. Retirees may consider a diversified portfolio to help provide relatively minimal downside risk, while potentially providing a relatively high upside benefit.

Inflation

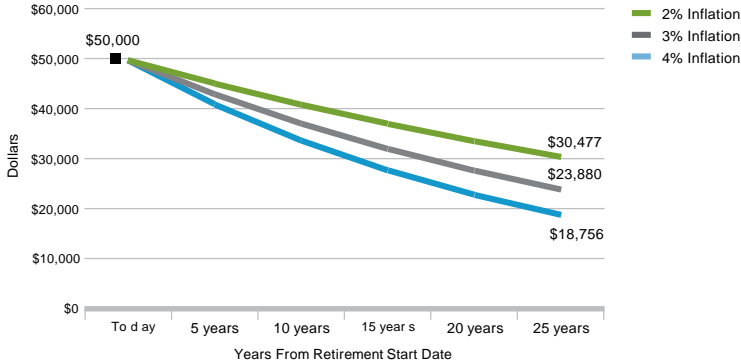
Inflation is the long-term tendency of money to lose purchasing power. And it can have a particularly negative effect on retirees because it chips away at retirement income in two ways:

- Increases the future cost of goods and services
- Potentially erodes the value of assets set aside to meet those costs

For example, today a gallon of milk costs about \$3.50. In 2030, a 3% annual inflation rate could send that price to \$7. As inflation pushes the price of everything from milk to new cars higher, it drives the buying power of a dollar down. That's why it's so important for your investments to outpace inflation.

Even low inflation can damage purchasing power

The strong likelihood of continuing inflation makes it imperative that your retirement savings include investments with the potential to beat inflation—especially considering the longer retirement that today's retirees can anticipate. This chart shows the potential effect that various rates of inflation could have on the buying power of \$50,000 over 25 years.



All numbers were calculated based on hypothetical inflation rates of 2%, 3%, and 4% (historical average from 1926 to 2014 was 3%) to show the effects of inflation over time. Actual inflation rates may be more or less.

CHALLENGE:
Inflation increases future costs of goods and services and erodes the value of assets set aside to meet those costs.

WHAT YOU CAN DO:
Include investments with the potential to outpace inflation in your investment portfolio and investment plan.



Excess Withdrawal

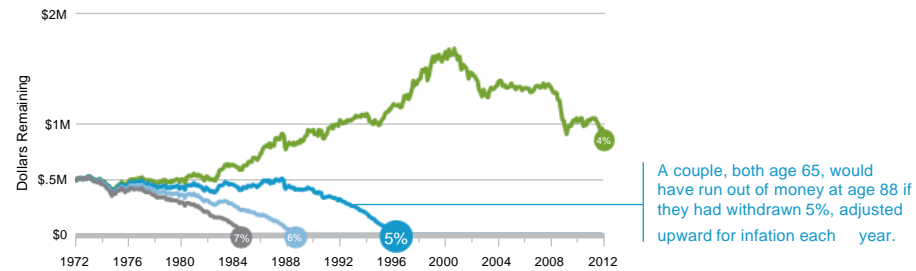
Even the savviest asset allocation strategy can misfire without an equally wise strategy for withdrawing your assets. The withdrawal rate you decide on can dramatically affect how long your money will last. This variable is largely in your control.

The first step is understanding how much you'll spend in retirement. In a recent survey, only 8% of retirees were spending less than they had before retiring—with 89% spending the same or more. §

Let's see how different withdrawal rates may affect the life of a pool of assets. The chart below takes a balanced portfolio of \$500,000 and tracks it over the period 1972 to 2012 using a range of inflation-adjusted withdrawal rates.

SUSTAINABLE WITHDRAWAL RATES CAN EXTEND THE LIFE OF A PORTFOLIO

How a 65-year-old couple retiring in 1972 with \$500,000 is affected



Source: Fidelity Investments. Hypothetical value of assets held in an untaxed account of \$500,000 invested in a portfolio of 50% stocks, 40% bonds, and 10% short-term investments with inflation-adjusted withdrawal rates as specified. This chart uses historical monthly performance from January 1972 through December 2012 from Ibbotson Associates; stocks, bonds, and short-term investments are represented by the S&P 500, U.S. Intermediate-Term Government Bonds, and U.S. 30-day T-bills, respectively. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

A 4% withdrawal rate—\$20,000 in the first year and then adjusted each year for actual historical inflation—is the only one of the scenarios that would have sustained the asset pool and produced income throughout the couple's projected lifetime. While a withdrawal rate of 5% could have extended the income for nearly 25 years, the portfolio still would have run out of money when there was still a 63% chance of one member of the couple being alive.

§ Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2018 Retirement Confidence Survey.



CHALLENGE:

Withdrawal rates much above 5%, especially in the early years of your retirement, may increase the likelihood that you will deplete your assets prematurely.

WHAT YOU CAN DO:

Use as conservative a withdrawal rate as possible, particularly in your early years of retirement.

Maximizing Sources of Income

There are important decisions you'll need to make regarding Social Security and any defined benefit plans that you may have, and your advisor can be an excellent resource.

Perhaps the most consequential of these involves when to begin receiving Social Security benefits. Just because Social Security becomes available to you at age 62 or 67 doesn't necessarily mean that's when you should take it.

Choosing when to begin payments requires careful consideration, because the amount you receive could vary greatly. There are valid reasons for collecting both earlier and later.

For example, if your family or medical history suggests that you may exceed or fall short of your life expectancy, this knowledge may aid your decision. Working with your advisor, you can decide which age may be right for you to ensure that you maximize the potential cash flow that Social Security is designed to provide.

HOW DO AGE AND LONGEVITY AFFECT HOW MUCH YOU RECEIVE IN SOCIAL SECURITY BENEFITS?
 The hypothetical table below shows potential Social Security benefits for a person aged 55 in 2016 earning \$75,000.

| Start collecting Social Security at this age: | 62 | 67 (full retirement age) | 70 |
|---|-----------|--------------------------|-----------|
| Receive this much initially per year: | \$17,028 | \$25,428 | \$32,244 |
| Live to age 70, and receive a total of: | \$136,224 | \$76,284 | \$0 |
| Live to age 80, and receive a total of: | \$306,504 | \$330,564 | \$322,440 |
| Live to age 90, and receive a total of: | \$476,784 | \$584,844 | \$644,880 |

For defined benefit plans, you'll need to work with your advisor and decide whether to take a lump sum or to receive payments over time—and whether to continue payments to your spouse.

This hypothetical chart is for illustrative purposes only. The Social Security benefits above are based on one person's hypothetical work history. It assumes the following: 1) person is age 55 in 2016 with a full retirement age of 67; 2) person has pretax income of \$75,000 in 2016, subject to Social Security taxes; 3) person works until benefits are collected; 4) all benefits are shown in today's dollars, pretax; 5) once benefits begin, there is no reduction in benefits due to earned income on or before the full benefit age; 6) cumulative benefit amounts are calculated as initial benefit amount multiplied by the number of years. The cumulative total is not a future savings balance from investing Social Security retirement benefits received; 7) taxes are not taken into account. If they were, amounts would be lower. Benefit estimates were obtained from the Social Security Administration's Online Quick Calculator at www.ssa.gov. This calculator is periodically updated.

Creating Your Retirement Income Plan

Here's some good news: It doesn't have to be a daunting process, and you won't have to do it alone. Your advisor can make the process smoother and easier by helping you:

Identify your income needs in retirement

Create a realistic budget based on your desired lifestyle, and determine which of your expenses are essential and which are discretionary.

Consider all sources of income

Review all the income and assets you have to fund retirement, and decide when might be the optimal time to begin Social Security benefits or structure any defined benefit payments.

Compare income and expenses

Earmark predictable sources of income to cover essential expenses, and assign less predictable sources to fund discretionary expenses.

Allocate your investment portfolio

Choose investments to meet growth and income needs—while taking into account such factors as your age, withdrawal rates, and risk tolerance.

Monitor your plan regularly

Work with your advisor at least once a year to adjust your plan as your life changes in retirement.



Your Advisor and Fidelity Are Here to Help

Like a good road map, a well-thought-out retirement income plan, built with the assistance of your financial advisor, may provide reassurance and the confidence of knowing you are heading in the right direction.

Fidelity's reliable support—with a wide range of investment options and years of investment management experience through all market conditions—complements your advisor's know-how to help you pursue your goals.

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IMPORTANT: Any projections and simulations are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Over time, results may vary with each use. It is not possible to invest directly in an index. All indexes include reinvestment of dividends and interest income. Although past performance does not guarantee future results, it may be useful in comparing alternate investment strategies over the long term. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical illustrations.

INDEX DEFINITIONS

Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 widely held U.S. stocks and includes reinvestment of dividends. **U.S. Intermediate-Term Government Bond Index** is an unmanaged index that includes the reinvestment of interest income. **MSCI EAFE (Europe, Australasia, Far East) Index** is an unmanaged market capitalization-weighted index that is designed to represent the performance of developed stock markets outside the United States and Canada and assumes the highest possible withholding taxes are applicable. **The Consumer Price Index** is a widely recognized measure of inflation calculated by the U.S. government.

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50+ FUTURES Planning

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